Argentina

Debt moratorium call causes furor

by Cynthia Rush and Gerardo Terán Canal

When Father Osvaldo Musto told Radio Colonia on June 19 that Argentina's government should declare a debt moratorium for one to two years, he placed the issues of national economic policy and solutions to Argentina's financial crisis at the center of national debate—right where Harvard-trained Finance Minister Domingo Cavallo would prefer it not be.

Cavallo is the chief architect of the 1991 "convertibility plan," which pegged the peso to the dollar in a one-to-one relationship and is cited as the reason for Argentina's return to economic stability and acceptance by the international banking community as a "reliable" country. But particularly since the crisis triggered by Mexico's December 1994 peso devaluation, the Argentine free-market "model" has foundered, precisely as *EIR* predicted it would, and the uproar provoked by father Musto's call underscores how precarious the country's alleged stability really is.

The International Monetary Fund is fearful enough that Argentina won't be able to comply with the targets of its standby agreement, that it has taken the unprecedented step of setting up a permanent office in Buenos Aires to more closely monitor the government's progress. And many international bankers have expressed concern over the country's ability to make foreign debt payments. They point to the fact that the only way that Cavallo could come up with the money to make payments due on June 30 was to postpone payment of salaries to state employees and of money owed to state suppliers. Some ask, if the government had such difficulty in making payments in the range of $900 million for the first half of 1995, how will it make the $5 billion payment due in the second half of 1995?

Especially nerve-wracking to local and foreign policymakers is the frequency with which the name of U.S. economist Lyndon LaRouche, and his proposed solutions to the economic disintegration crisis, keeps cropping up inside the country. Many commentators repeatedly use LaRouche's image of the world economy as a sinking *Titanic* to also describe the Argentine situation.

Father Musto, the current head of the Labor Commission of the Buenos Aires Archdiocese, proposed that during the recommended grace period, funds normally allocated for payment of debt service should be used instead to "expand jobs and give credit to companies." The problem of unemployment "is sufficiently grave as to signal that we are living in a society in which work exists without the workers, and the economy without workers, and without people," he said.

Explaining that he was not expressing the views of the Catholic Church as an institution, Father Musto nonetheless emphasized that his words "are based on the teachings of Pope John Paul II on the issue of the foreign debt." In a subsequent interview with the daily *Página 12,* Musto added that while the country needs stability, "it shouldn't come as a result of complying with International Monetary Fund demands, whether on the foreign debt or anything else."

The thin-skinned Cavallo felt compelled to respond to Father Musto personally, denouncing his call as irresponsible and warning that if implemented, a debt moratorium would plunge Argentina into poverty, cut it off from foreign credit and destroy "investor confidence." He likened Musto to a left-wing terrorist, who was scaring off investors with his actions. Other free trade economists tried to dismiss Musto as just an unimportant parish priest, and even lied that the pope had never called for debt forgiveness. Kissingerian TV commentator Mariano Grondona made Musto's proposal the topic of his weekly television talk show on June 20, bringing in government economists and politicians to attack the worker-priest.

But other church leaders counterattacked, not only offering public support for Father Musto, but elaborating on the priest's accurate portrayal of the role of Cavallo's alma mater, Harvard University, in producing the inhuman free-market strategy that has destroyed every nation in which it has been applied. Musto had told Grondona that "I didn't study at Harvard," where economists are trained in "facts and figures . . . but I did study in Rome, where concerns of the heart"—that is, the plight of human beings—"come first." Msgr. Ramón Staffolani, the bishop of Río Cuarto in the province of Córdoba, told an interviewer on Radio Mitre on June 24 that most economists seem "to only come from Harvard." But now, he said, it is time for the government to listen to "others."

The June 24 *Clarín* reported Iguazú Bishop Msgr. Joaquín Piña's warning that "we can't obey the International Monetary Fund at the expense of the people's hunger." Msgr. Rafael Rey, president of the church's Caritas agency and bishop of the diocese of Zárate, told *Clarín* that "sometimes we don't understand economics but we do understand people's pain, because we are close to them." Cavallo "is a good technician," he continued, "but something is missing. We can't just be concerned with numbers."

Ferment grows

For President Carlos Menem and Cavallo, this is not the opportune moment for a national debate on economic policy.

Despite an infusion of $7 billion in foreign credits to help prop up the banking system, the banks are essentially insolvent. More than $7 billion has fled the system since January and the anticipated return of foreign investors has not occurred.

Moreover, almost all of Argentina's provinces are collapsing under the weight of Cavallo's draconian austerity regime. The delay in payment of wages and pensions to public employees in many provinces has provoked social protest and a situation that is ripe for manipulation by terrorists and provocateurs. In the politically and economically important province of Córdoba, for example, the passage of an Economic Emergency Law on June 22 mandating harsh austerity and payment of $600 million in wages and pensions to public employees with special provincial bonds led to two days of protest that turned violent when members of the left-terrorist Patria Libre party infiltrated the demonstration.

Similar protests have occurred in the provinces of Salta, Jujuy, Tucumán, Río Negro, Tierra del Fuego, and Catamarca. To governors' pleas that the federal government assist them economically, Cavallo has responded with the demand that provinces immediately privatize their provincial banks and other public companies, to generate needed funds. The finance minister told Córdoba Gov. Eduardo Angeloz that the World Bank would be happy to provide him with funds, as soon as the governor privatized the Bank of Córdoba and the provincial energy company.

Signs of economic disintegration are everywhere. In the province of La Pampa, in the heart of Argentina's fertile *pampa húmeda,* farmers are auctioning off their agricultural machinery and land, at prices one-third of their value, to generate funds to pay their debts. Of the province's 10,000 producers, 4,000 are in bankruptcy.

According to the Argentine Federation of Chambers of Commerce, at least 42,000 businesses have shut down this year. The dramatic decline in sales in several key sectors of the economy tells the story. In May alone, sales of food dropped 15%; medicines, 25%; textiles, 41%. The May drop in auto sales, one of the country's most important sectors, was estimated to be as high as 80%. Brazil's recent decision to establish quotas on auto imports, if kept in place, is expected to devastate Argentina's auto industry. The 70,000 vehicles Argentina had hoped to sell to Brazil during the rest of 1995 will now drop to 12,000, according to industry experts.

Argentina's hope of offsetting its trade imbalance and preventing a worse recession by exporting large quantities of goods to the Brazilian market were also dashed on June 22 when the Cardoso government devalued its currency, the *real*. This will make Argentine goods more expensive in comparison to Brazil's, and lower Argentina's export revenues at a time when it can least afford it.

Brazil

Virtual stability, real disaster

by Lorenzo Carrasco

At the completion of one year of its "monetary stability program," the government of Fernando Henrique Cardoso is attempting to hide, with ad hoc economic indicators, the disaster which is sweeping through the Brazilian economy. The official inflation indicators—30% since July 1994—with an alleged growth in Gross Domestic Product of 9.1% in the last quarter, portray a numerical "virtual reality" very far from actual reality.

Throughout this year, and in order to achieve this virtual stability, the government has adopted three devices to "hold down" inflation. The first was to overvalue the national currency, the Real, with respect to the dollar, provoking a brutal breakdown in prices. This measure was implemented under the illusion that the country would be flooded, starting in 1995, with foreign capital. In fact, up to December 1994 the country had accumulated $43 billion in exchange reserves.

Second, in order to keep on feeding the gluttony of the usurious banks and to maintain the influx of foreign capital, interest rates were shot up to the stratosphere—the highest interest rates in the world—after the Mexican crisis of Dec. 20, 1994. At present, the basic rates which are applied to public securities, which serve as the reference for the entire national finance system, are between 50% and 60% annually in real terms.

Third, to keep up the pretext of near-zero inflation, in a climate of absolute monetary speculation, the government defined a basic market basket at a level lower than the costs of production. To do this, it adopted the insane policy of importing basic foodstuffs in which the country is self-sufficient, thus artificially depressing prices. The same occurred in the shoe and textile industries, among other sectors. The government similarly froze rates for public services, gas, telephones, electricity, and fuel.

Operation successful, patient dead

This policy of self-dumping against domestic production indeed reduced inflation dramatically, from about 40% a month to the present 2% level, a rate that only touches those families living at the very limit of primary subsistence, who